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Forest Products

Industry Comment - Changes

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Forest Products: 2Q11 Preview; Upgrading Lumber Cos on Valuation & China Growth

Building Materials: Setting Up for the Seasonal Trade – We are upgrading BC based lumber producers on attractive valuations and our expectation for a repeat of the profitable seasonal lumber trade again this year. After reaching a peak in early April, share prices for the lumber cos in our coverage universe are down an average of 31% (vs. the S&P/TSX Composite Index, down 5.8% since Apr-01-11), driven lower by slumping lumber prices reflecting an oversupplied North American supply chain. However, after hitting a low of US\$218/mfbm in mid-May, benchmark WSPF 2X4 lumber prices have now rebounded 16% to US\$253/mfbm – firmly in cash flow positive territory. Nov-2011 CME lumber futures contracts are currently above US\$270/mfbm, hinting at expectations of potential appreciation later in the year. We believe these improvements are the result of excess inventories being worked through the system and very strong demand from China. We highlight newly released statistics indicating May BC lumber exports to China are up 150% from last year and now approaching 375,000 US housing start (SAAR) equivalent levels – a new record. While we expect month to month shipments to be volatile, China remains a key leg of the Raymond James Ltd. Peak Lumber Super Cycle thesis (along with biological supply constraints & an eventual recovery in the US market). While current Chinese shipments are not sufficient to replace the moribund US market we note that lumber prices are materially higher than they would be otherwise and suggest that even modest increases in US activity levels should lead to predicted tight market conditions.

While overall 2Q11 lumber segment results are expected to be relatively uninspiring, we are calling for modest earnings ‘beats’ as Chinese-related lumber sales realizations normalize. Regardless, our upgrades on each of Canfor (CFP-TSX), West Fraser (WFT-TSX) and Interfor (IFP.A-TSX) to Outperform from Market Perform are based primarily on valuation. In the case of Canfor we are increasing our target price to \$16 from \$12.50, representing a 5.3x mid-cycle EV/EBITDA multiple, and we note CFP’s current share price implies just a 3.3x mid-cycle EV/EBITDA. For West Fraser we are increasing our target price to \$65 from \$54, representing a 5.0x mid-cycle EV/EBITDA multiple, while noting WFT’s current share price implies a 3.6x mid-cycle multiple. Lastly we are increasing our target price for Interfor to \$7 from \$6, representing a 3.4x mid-cycle EV/EBITDA multiple, compared to the 2.7x implied by IFP’s current share price. While Market Perform rated Norbord’s share price is down 21% from spring highs we note OSB panels do not enjoy the benefit of Chinese demand and prices for the commodity remain depressed at US\$167/msf. As such, we are maintaining our neutral stance and \$14/share target price. Our rating and target for Sino-Forest (TRE-TSX) remain under review pending the findings of an ongoing investigation by an independent board review committee.

Pulp & Paper: Fortress Paper & Domtar Remain Top Picks - We reiterate Strong Buy rated Fortress Paper (FTP-TSX) as a top pick among our coverage universe and highlight key points of our investment thesis include the extremely attractive forecast cash flows associated with the converted Thurso dissolving pulp mill, improving conditions at the Landqart banknote mill, and continued steady performance at the Dresden wallpaper mill. In our view, 2Q11 results will be a non-event as the market looks toward the late 3Q11 commencement of DP production at Thurso as well as a potential update on the company’s search for a second mill acquisition candidate. We expect high white paper and NBSK pulp prices to propel Strong Buy rated Domtar (UFS-NYSE) to a second consecutive set of exceptional quarterly results with the company posting an earnings “beat”. In addition, we look forward to an update on the company’s share buyback program and continue to believe reductions to share count and net debt will put upward pressure on the share price. We maintain our US\$125/share target price and highlight Domtar’s inexpensive valuation with the stock currently trading at just 3.2x 2011 EBITDA. With quarterly average NBSK pulp prices at all-time highs (of US\$1,027/mt), we expect strong 2Q11 results from Outperform rated Canfor Pulp (CFX-TSX) and Mercer International (MERC-NASDAQ), tempered somewhat by FX headwinds stemming from the weaker USD. As accounted for in our US\$1,000/mt 2011 NBSK price forecast, pulp markets have softened seasonally; however, we expect firm industry fundamentals and robust Chinese shipments will firm markets this fall. We continue to recommend Mercer for capital appreciation and Canfor Pulp for yield (currently at 9%) while reiterating our target prices of \$21 and US\$17, respectively. We maintain our Market Perform rating and \$1.60 share price for Fibrek (FBK-TSX).

Company	Ticker Primary	Ticker Secondary	Current Price	Target Price (6-12mo) Old New		Div. Yield	Tot. Return To Target	Rating Old	Rating New
Building Materials									
Canfor Corp.	CFP-TSX		C\$9.75	C\$12.50	C\$16.00		64%	Market Perform 3	Outperform 2
Interfor	IFP.A-TSX		C\$5.00	C\$6.00	C\$7.00		40%	Market Perform 3	Outperform 2
Norbord Inc.	NBD-TSX		C\$12.29	C\$14.00	C\$14.00		14%	Market Perform 3	Market Perform 3
Sino-Forest Corporation	TRE-TSX		C\$4.08	UR	UR		NM	Under Review	Under Review
West Fraser Timber	WFT-TSX		C\$45.51	C\$54.00	C\$65.00	1%	44%	Market Perform 3	Outperform 2
Pulp & Paper									
Canfor Pulp Products Inc.	CFX-TSX		C\$17.79	C\$21.00	C\$21.00	9%	27%	Outperform 2	Outperform 2
Domtar	UFS-NYSE	UFS.T-TSX	US\$93.41	US\$125.00	US\$125.00	1%	34%	Strong Buy 1	Strong Buy 1
Fibrex Inc.	FBK-TSX		C\$1.25	C\$1.60	C\$1.60		28%	Market Perform 3	Market Perform 3
Fortress Paper	FTP-TSX		C\$36.74	C\$60.00	C\$60.00		63%	Strong Buy 1	Strong Buy 1
Mercer International Inc.	MERC-NASDAQ	MRI.U-TSX	US\$10.68	US\$17.00	US\$17.00		59%	Outperform 2	Outperform 2

Raymond James Ltd.

Exhibit 1: Earnings per Share (EPS) Estimates and Revisions

Company	Recent	2011E				2011E	2012E	Rating	6-12 Mth Target	Rating	
		Price	Q1	Q2	Q3	Q4	Yr				Yr
BUILDING MATERIALS											
Canfor	Revised	\$9.75	\$ 0.00	\$ (0.04)	\$ (0.03)	\$ 0.11	\$ 0.04	\$ 0.83	2	\$16.00 ↑	OUTPERFORM2 ↑
CFP-T	Previous		\$ -	\$ (0.01)	\$ (0.02)	\$ 0.09	\$ 0.06	\$ 0.83	3	\$12.50	
Interfor	Revised	\$5.00	\$ (0.01)	\$ (0.06)	\$ (0.02)	\$ 0.08	\$ (0.01)	\$ 0.38	2	\$7.00 ↑	OUTPERFORM2 ↑
IFP.A-T	Previous		\$ (0.01)	\$ (0.11)	\$ (0.02)	\$ 0.08	\$ (0.06)	\$ 0.38	3	\$6.00	
Norbord (US\$)	Revised	\$12.29	\$ (0.05)	\$ (0.16)	\$ 0.07	\$ 0.14	\$ (0.14)	\$ 1.30	3	\$14.00	MARKET PERFORM3
NBD-T	Previous		\$ (0.05)	\$ (0.12)	\$ 0.08	\$ 0.15	\$ 0.06	\$ 1.32	3	\$14.00	
West Fraser	Revised	\$45.51	\$ 0.46	\$ 0.62	\$ 0.96	\$ 0.90	\$ 2.95	\$ 5.14	2	\$65.00 ↑	OUTPERFORM2 ↑
WFT-T	Previous		\$ 0.46	\$ 0.75	\$ 0.96	\$ 0.90	\$ 3.07	\$ 5.14	3	\$54.00	
Sino-Forest	Revised	\$4.08	*** Under Review ***						U.R.	U.R.	UNDER REVIEW
TRE-T	Previous		*** Under Review ***						U.R.	U.R.	
PULP & PAPER											
Canfor Pulp Fund	Revised	\$17.79	\$ 0.71	\$ 0.66	\$ 0.49	\$ 0.57	\$ 2.44	\$ 1.81	2	\$21.00	OUTPERFORM2
CFX.UN-T	Previous		\$ 0.71	\$ 0.69	\$ 0.53	\$ 0.60	\$ 2.53	\$ 1.81	2	\$21.00	
Domtar (US\$)	Revised	\$93.41	\$ 3.25	\$ 2.90	\$ 2.50	\$ 2.48	\$ 11.13	\$ 9.58	1	\$125.00	STRONG BUY 1
UFS-N	Previous		\$ 3.25	\$ 3.14	\$ 2.50	\$ 2.48	\$ 11.37	\$ 9.58	1	\$125.00	
Fortress Paper	Revised	\$36.74	\$ (0.42)	\$ (0.08)	\$ 0.42	\$ 1.99	\$ 1.91	\$ 8.64	1	\$60.00	STRONG BUY 1
FIP-T	Previous		\$ (0.42)	\$ 0.24	\$ 1.16	\$ 2.38	\$ 3.36	\$ 10.35	1	\$60.00	
Mercer (US\$)	Revised	\$10.18	€ 0.52	€ 0.38	€ 0.48	€ 0.42	€ 1.80	€ 1.59	2	\$17.00	OUTPERFORM2
MERC-Q	Previous		€ 0.52	€ 0.39	€ 0.40	€ 0.39	€ 1.70	\$ 1.59	2	\$17.00	
Fibrex	Revised	\$1.25	\$0.03	\$0.04	\$0.05	\$0.06	\$ 0.16	\$ 0.08	3	\$1.60	MARKET PERFORM3
FBK-T	Previous		\$ 0.03	\$ 0.02	\$ 0.00	\$ (0.01)	\$ 0.03	\$ 0.08	3	\$1.60	

Source: Raymond James Ltd.

2Q11 Earnings Preview – Looking specifically at 2Q11 results we highlight Domtar as having the best probability of posting an earnings beat, in our view, on the strength of solid UFS and NBSK pricing and relative insensitivity to the weaker USD. We are also looking for Canfor and West Fraser to post modest beats. While overall lumber segment results are likely to be uninspiring, we note that lower benchmark WSPF 2x4 lumber pricing should have the effect of normalizing overall lumber sales realizations relative to the previous two quarters. Previously, the divergence between lumber grades/sizes bound for buoyant Chinese markets introduced a margin of error in analyst models which we expect to reverse in the current quarter. While Fortress Paper's 2Q11 EPS is expected to come in below consensus, we regard the quarter as a non-event as overall EBITDA is expected to remain weak as the Thurso conversion proceeds and the Landqart currency mill results remain challenged.

Exhibit 2: 2Q11 Earnings per Share Estimates and Revisions vs. Consensus

Company	Symbol	Recent Price	2Q11E				First Call		Prior Quarter	Prior Year
			Revised	Previous	Change	Consensus	Difference	1Q11	2Q10	
BUILDING MATERIALS										
Canfor	CFP-T	\$9.75	\$ (0.04)	\$ (0.01)	(\$0.03)	(\$0.07)	\$0.03	\$ 0.00	\$ 0.20	
Interfor	IFP.A-T	\$5.00	\$ (0.06)	\$ (0.11)	\$0.05	(\$0.07)	\$0.01	\$ (0.01)	\$ (0.01)	
Norbord	NBD-T	\$12.29	\$ (0.16)	\$ (0.12)	(\$0.04)	(\$0.05)	(\$0.11)	\$ (0.05)	\$ 0.81	
West Fraser Timber	WFT-T	\$45.51	\$ 0.62	\$ 0.75	(\$0.13)	\$0.59	\$0.03	\$ 0.46	\$ 1.44	
Sino-Forest	TRE-T	\$4.08	*** Under Review***							
PULP & PAPER										
Canfor Pulp	CFXUNT	\$17.79	\$ 0.66	\$ 0.69	(\$0.03)	\$0.65	\$0.01	\$ 0.71	\$ 0.88	
Domtar	UFS-N	\$93.41	\$ 2.90	\$ 3.14	(\$0.24)	\$2.78	\$0.12	\$ 3.25	\$ 2.67	
Fortress Paper	FIP-T	\$36.74	\$ (0.08)	\$ 0.24	(\$0.32)	(\$0.03)	(\$0.05)	\$ (0.42)	\$ 0.37	
Mercer	MERC-Q	\$10.18	€ 0.38	€ 0.39	(€ 0.01)	€ 0.44	(€ 0.06)	€ 0.52	€ 0.23	
Fibrex	FBK-T	\$1.25	\$0.04	\$ 0.02	\$0.03	\$0.03	\$0.01	\$0.03	\$ 0.11	

Source: Company Reports, Thomson FirstCall, Raymond James Ltd.

Commodities

Canadian Dollar – Bilateral CAD/USD exchange rates averaged US\$1.03 for 2Q11, up from US\$1.01 in 1Q11, representing a material negative for the forestry sector. With cash flows between the CAD and the “safe haven” USD largely dictated by commodity prices and investors’ appetite for risk, the C\$ was heavily impacted during 2Q11 by developments surrounding the European debt crisis and the respective Canadian and US economic outlooks. Therefore, after hitting a 3.5 year high in late April of just under US\$1.06 amid rising oil prices and speculation rising inflation would force Canada’s central bank to hike interest rates, the C\$ fell to just over US\$1.01 by late June, driven downward by Greek sovereign debt concerns and several disappointing US economic data points prompting a move back into the USD. However, the C\$ rallied during the last days of June after Greece passed austerity measures, securing the international funding required to avert potential bankruptcy with some strong domestic Canadian economic data also lending support. Looking ahead, we believe the C\$ will be particularly sensitive to global factors such as fears of contagion in Europe where heightened concerns are emerging over Italy’s sovereign debt as well as developments on the US economic front with a recent disappointing jobs report sparking concerns of an economic slowdown. Lastly, the outcome of negotiations between President Obama and US congressional

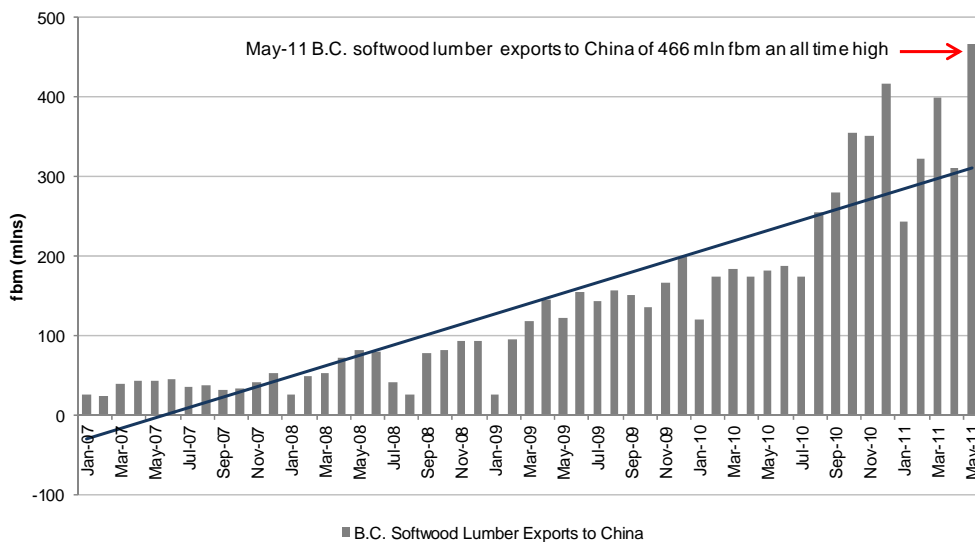
leaders surrounding the increase to the US debt ceiling also has the potential to materially impact FX rates during 3Q11, in our view.

Consistent with Raymond James Ltd.’s marked to market exchange rate policy our estimates assume a \$1.03 USD/CAD, in-line with current levels.

WSPF Lumber – With housing starts coming in at just 541K and 560K for April and May, respectively, down from an average of 580K in 1Q11, residential construction activity in the US housing market is yet to improve appreciably from recessionary lows. As such, despite continued strides into the expanding Chinese market, benchmark WSPF 2x4 lumber prices fell 19% to US\$242/mfbm in 2Q11, well below 1Q11’s US\$297/mfbm. Nevertheless, with prices rebounding 15% to US\$251/mfbm as of July 7 from June lows of US\$218/mfbm, the Western Canadian lumber producers are now firmly in cash flow positive territory, by our estimates, and significantly better off than would be the case if not for the burgeoning Chinese market. Unfortunately, the participation of the US market will be a prerequisite to anything more than short term supply-demand related price spikes as were seen in Apr-10 and Jan-11, in our view. Thus, we see lumber prices averaging US\$250/mfbm for 3Q11 (in line with current prices), improving moderately for 4Q11 to US\$270/mfbm for a 2011 full year average of US\$265/mfbm before increasing to an average of US\$290/mfbm in 2012.

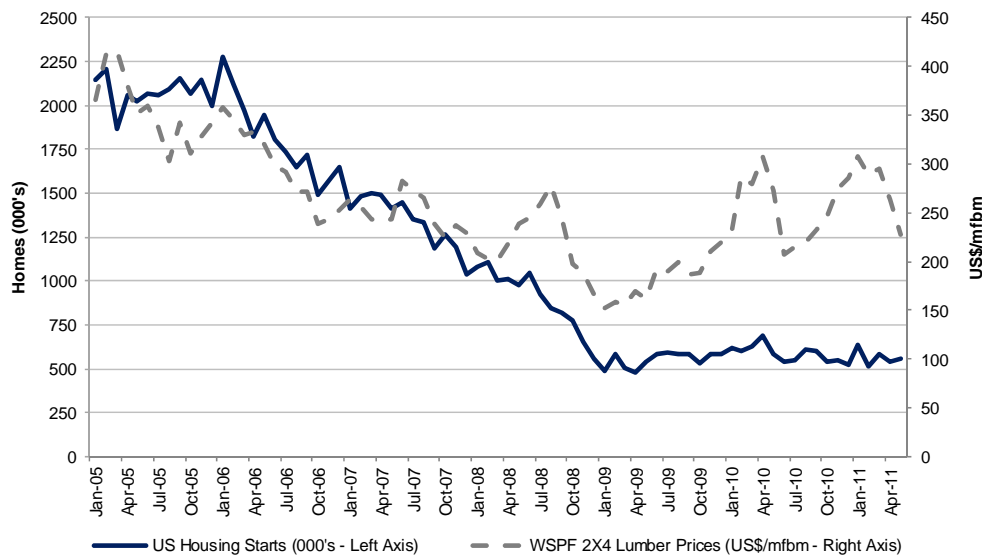
May-11 Exports to China an all-time high – BC lumber exports to China for May-11, released recently, hit a record 466 mln fbm, up 160% y/y and 50% mth/mth (see Exhibit 3). As a result, we expect to see a continuation of the divergence between US housing starts and WSPF lumber prices, now widely referred to as the “China Effect” (see Exhibit 4), which we believe will continue to support the commodity during the medium term as our analysis of Chinese demand gives us conviction these strong overseas shipments are sustainable going forward (see our research note dated July 7, 2011 titled *China Forest Products Markets: Long Term Bullish Trend Intact* for details).

Exhibit 3: B.C. Softwood Lumber Shipments to China



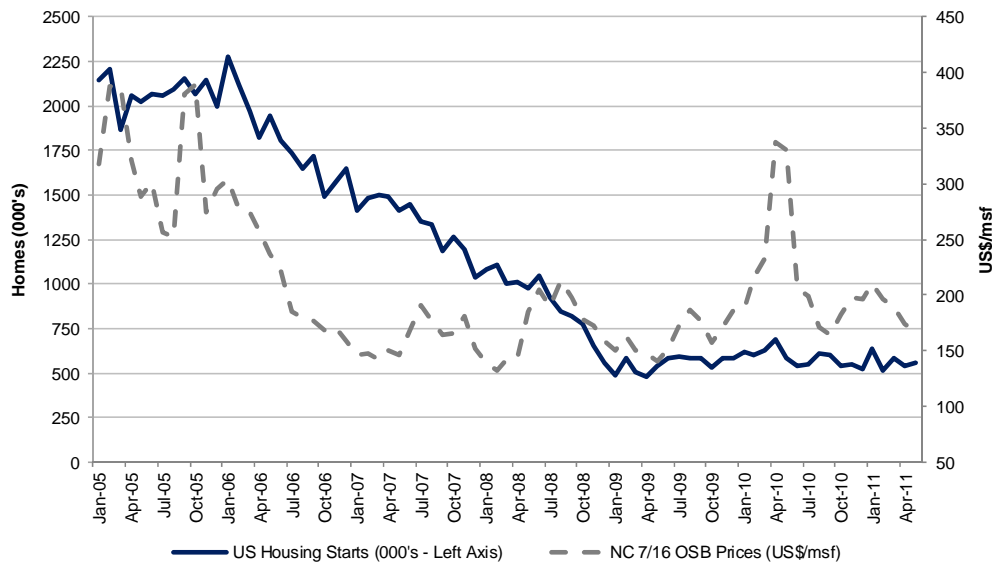
Note: Data originally reported in m³, converted to mfbm at 1.6 m³/mfbm

Source: BC Stats

Exhibit 4: B.C. US Housing Starts and WSPF 2x4 Lumber Prices – The “China Effect”

Source: Random Lengths, BC Stats

Structural Panels - NC 7/16 OSB prices, as reported by Random Lengths, averaged US\$174/msf in 2Q11, down 13% q/q from US\$199/msf in 1Q11 as US demand for structural wood panels remained weak. Relative to lumber, OSB is primarily a regional product, heavily dependent on demand from the US housing sector and with limited access to export markets such as China. Thus, we maintain a cautious outlook on the commodity as we do not foresee a material improvement in US housing until 2H12 at the earliest. While we note the OSB industry features a relatively significant amount of consolidation, OSB producers are yet to show signs of any meaningful production discipline, preventing prices from increasing for a sustained period given current conditions. Referring to Exhibit 5 we note, with the exception of a brief spike during 2Q10, OSB prices traditionally trend in a similar pattern to US housing starts and do not exhibit the “China Effect” seen in WSPF lumber detailed above. As current OSB prices of US\$167/msf are at or just below cash cost levels for most producers, we believe some curtailments at less competitive mills will cause prices to rise moderately through the second half of 2012 but still short of levels required for significant gains in producer profitability. Therefore, we are maintaining our US\$190/msf 2011 forecast for NC 7/16 OSB, which implies a modest improvement from YTD prices of US\$186/msf.

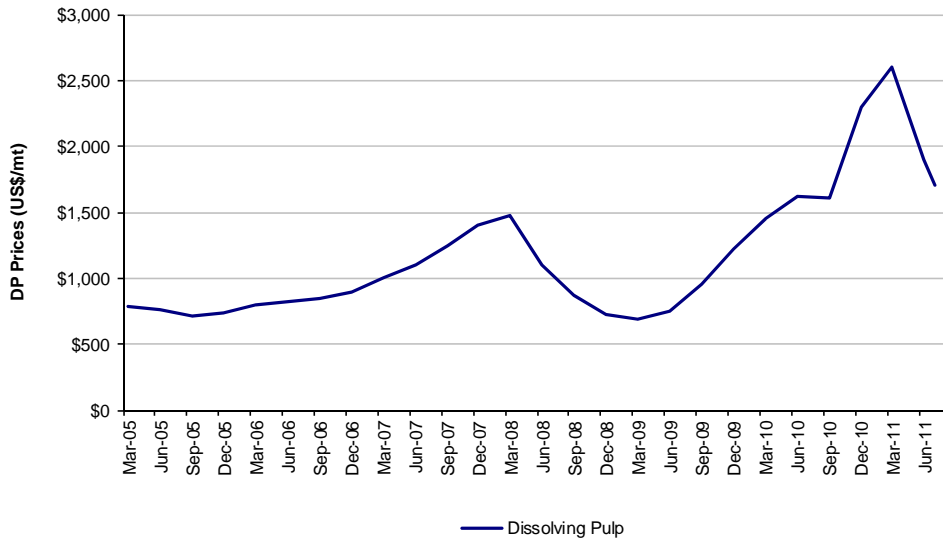
Exhibit 5: NC 7/16 OSB Prices vs. US Housing Starts

Source: Random Lengths, www.freelunch.com

NBSK Pulp – NBSK pulp prices averaged US\$1,027/mt for 2Q11, up 6% from US\$970/mt in 1Q11, reaching an all-time high of US\$1,040/mt in June on the back of robust Chinese demand and tight inventories. While global pulp markets do appear to be slowing seasonally with most major North American market NBSK pulp producers announcing US\$20/mt list price declines for Jul-11 (bringing prices to a still-high US\$1,020/mt) we maintain our bullish outlook on the commodity as fundamentals remain firm, in our view. Specifically, as per the Pulp and Paper Products Council’s most recent global pulp stats (May-11), NBSK operating rates remained high at 94% while global inventories were flat at 26 days seasonally adjusted, and YTD softwood pulp shipments to China were up 62% y/y. In addition, we believe heavy maintenance downtime schedules and capital projects related to the Canadian government’s Green Transformation Program during the spring and summer will hold inventories at below a balanced 30 days, minimizing potential downward pressure on pulp prices. Therefore, while we consider a further cut of US\$20/mt before the end of the summer to be likely, we believe pulp prices will remain firm for the remainder of 2011. A key risk to this outlook is the assumption of continued strong demand from China where buyers are prone to periods of destocking during times of high prices.

Dissolving Pulp – After reaching highs of US\$2,600/mt during the spring, prevailing dissolving pulp prices are now in the US\$1,600-\$1,700/mt range, reflecting a cooling in global textile markets and a relatively steep drop in cotton prices (NY cotton futures for Oct-11 delivery are currently at US\$1.04/lb down from \$1.50/lb in mid-June). Referring to Exhibit 6, we acknowledge the volatility in dissolving pulp prices; however, we believe current DP prices are healthier for the rayon industry in general, representing a more sustainable level, leading us to expect declines in the commodity to moderate going forward. Longer term, we believe macro trends such as the rapidly growing middle classes in China and India and increased per capita usage of clothing and textiles will continue to drive rising demand for rayon and DP.

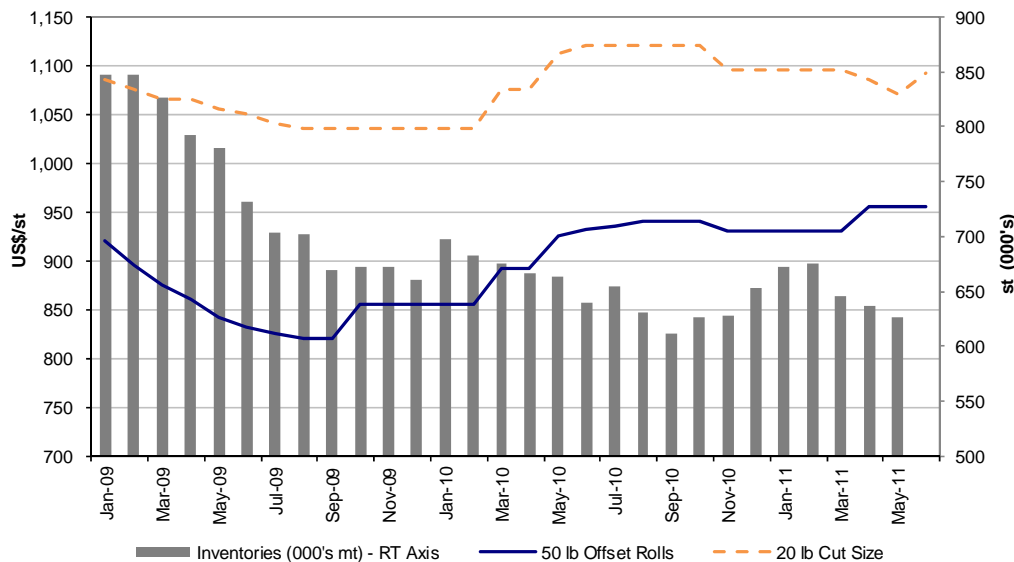
Exhibit 6: Dissolving Pulp Price Chart



Source: Poyry, CCF Group

Uncoated Free Sheet – White paper list prices, as reported by RISI, increased US\$25/st as of April 1 for 50lb offset rolls and US\$20-25/st in June for cut-size white paper grades, bringing average list prices to US\$955/st and US\$1070-1160/st, respectively, by the end of 2Q11. These improving prices came with white paper industry fundamentals mediocre at best with operating rates of 86% and shipments to the key North American market down 2.4% y/y as of May-11. We attribute this to the oligopolistic nature of the North American uncoated free sheet industry where heavy consolidation facilitates inventory management and price stability. As further evidence of this dynamic we note N.A. UFS inventories, at 627K st for May, appear to have remained within this range for an extended time period, significantly lower than 2009 levels (see Exhibit 7).

Exhibit 7: Uncoated Free Sheet Prices and North American Inventories



Source: RISI, Pulp & Paper Products Council

Exhibit 8: RJ Commodity Price Forecast Summary

COMMODITY/PRODUCT	Units	Current	2010 Actual	2011E Forecast Previous	% Chg	2012E Forecast Previous	% Chg		
LUMBER									
WESTERN SPF 2x4	US\$/mfbm	253	255	265	265	0%	290	290	0%
BABY SQUARES - 3 9/16"	US\$/mfbm	767	767	767	767	0%	767	767	0%
PANEL									
OSB - 7/16" NC	US\$/msf	167	219	190	190	0%	230	230	0%
PLYWOOD - CSP 3/8"	C\$/msf	263	299	265	330	-20%	315	315	0%
PULP/NEWSPRINT									
NBSK deI. U.S. NE	US\$/mt	1,026	960	1,000	1,000	0%	925	925	0%
NBSK deI. N. Europe	US\$/mt	1,018	939	996	996	0%	915	915	0%
PAPER / PACKAGING									
UFS - 50 lb offset roll	US\$/st	955	916	955	960	-1%	920	920	0%
UFS - 20lb cut size	US\$/st	1,138	1,126	1,168	1,175	-1%	1,150	1,150	0%
EXCHANGE RATES									
US\$/C\$		1.05	0.97	1.03	1.02	1%	1.03	1.02	1%
US\$/€		1.42	1.33	1.44	1.37	5%	1.44	1.37	5%

Source: Random Lengths, Madison's, Pulp & Paper Week, FOEX, Bloomberg, Raymond James Ltd.

Exhibit 9: RJL Paper and Forest Products Coverage Universe Earnings Calendar

	Symbol	2Q11 Earnings Release	Timing	Conference Call	Details
Thursday, July 21, 2011					
Canfor Pulp	CFX-T	✓	After Mkt		
West Fraser	WFT-T	✓	After Mkt		
Friday, July 22, 2011					
Canfor Pulp	CFX-T			✓	11am EST, 1-800-952-4972
West Fraser	WFT-T			✓	11:30am EST, 1-877-440-9795
Thursday, July 28, 2011					
Domtar	UFS-N	✓	Before Mkt	✓	10 am EST, 1-866-321-8231
Canfor	CFP-T	✓	After Mkt		
Friday, July 29, 2011					
Norbord	NBD-T	✓	Before Mkt	✓	1 pm EST, 1-800-711-9538 (Conf ID:2274397)
Canfor	CFP-T			✓	11 am EST, 1-866-226-1792
Tuesday, August 2, 2011					
Mercer	MERC-Q	✓	After Mkt		
Wednesday, August 3, 2011					
Mercer	MERC-Q			✓	TBA
Fibrex	FBK-T	✓	After Mkt		
Thursday, August 4, 2011					
Fibrex	FBK-T			✓	10am EST, Number TBA
Interfor	IFP.A-T	✓	After Mkt		
Friday, August 5, 2011					
Interfor	IFP.A-T			✓	11 am EST, 1-866-323-8540
Monday, August 8, 2011					
Fortress Paper	FTP-T	✓	After Mkt		
Tuesday, August 9, 2011					
Fortress Paper	FTP-T			✓	TBA
Monday August 15, 2011					
Sino-Forest (tentative)	TRE-T	✓	After Mkt		
Tuesday August 16, 2011					
Sino-Forest (tentative)	TRE-T			✓	TBA

Source: Company news releases

Estimated earnings release and conference call times/details are subject to change.

Building Materials

Canfor Corp. CFP-TSX		Rating Old: Market Perform	Rating New: Outperform
Current Price(Jul-15-11)	C\$9.75	Target Price (6-12 mos)	Old: C\$12.50 New: C\$16.00
52-Week Range	C\$15.48 - C\$7.91	Total Return to Target	64%
Market Capitalization (mln)	C\$1,391	Dividend/Yield	C\$0.00/0.0%
Shares Outstanding (mln, f.d.)	142.6	Current Net Debt (mln)	C\$105
Average Daily Volume (000s)	321	Enterprise Value (mln)	C\$1,392

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$(0.05)	C\$0.20	C\$0.08	C\$0.09	C\$0.32	C\$2,430	C\$323	NA	4.3x
Old 2011E	0.00A	(0.01)	(0.02)	0.09	0.06	2,584	300		
New 2011E	0.00A	(0.04)	(0.03)	0.11	0.04	2,537	290	NA	4.8x
Old 2012E	NA	NA	NA	NA	0.83	3,117	437		
New 2012E	NA	NA	NA	NA	0.83	3,117	437	11.7x	3.2x

	Lumber	Pulp
	(US\$/mfbm)	(US\$/mt)
2010A	US\$255	US\$960
Old 2011E	265	1,000
New 2011E	265	1,000
Old 2012E	290	925
New 2012E	290	925

Source: Raymond James Ltd., Thomson One

Interfor IFP.A-TSX		Rating Old: Market Perform	Rating New: Outperform
Current Price(Jul-15-11)	C\$5.00	Target Price (6-12 mos)	Old: C\$6.00 New: C\$7.00
52-Week Range	C\$7.49 - C\$3.21	Total Return to Target	40%
Market Capitalization (mln)	C\$236	Dividend/Yield	C\$0.00/0.0%
Shares Outstanding (mln, f.d.)	47.1	Current Net Debt (mln)	C\$147
Average Daily Volume (000s)	86	Enterprise Value (mln)	C\$354

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$(0.05)	C\$(0.01)	C\$(0.02)	C\$0.01	C\$(0.06)	C\$626	C\$48	NA	7.4x
Old 2011E	(0.01)A	(0.11)	(0.02)	0.08	(0.06)	672	58		
New 2011E	(0.01)A	(0.06)	(0.02)	0.08	(0.01)	659	58	NA	6.1x
Old 2012E	NA	NA	NA	NA	0.38	643	85		
New 2012E	NA	NA	NA	NA	0.38	643	85	13.0x	4.2x

	Lumber
	(US\$/mfbm)
2010A	US\$255
Old 2011E	265
New 2011E	265
Old 2012E	290
New 2012E	290

Source: Raymond James Ltd., Thomson One

Building Materials

Norbord Inc. NBD-TSX

Rating: Market Perform

Current Price(Jul-15-11)	C\$12.29	Target Price (6-12 mos)	C\$14.00
52-Week Range	C\$16.70 - C\$10.51	Total Return to Target	14%
Market Capitalization (mln)	C\$535	Dividend/Yield	C\$0.00/0.0%
Shares Outstanding (mln, f.d.)	43.5	Current Net Debt (mln)	C\$367
Average Daily Volume (000s)	62	Enterprise Value (mln)	C\$872

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$(0.12)	C\$0.81	C\$(0.16)	C\$(0.05)	C\$0.49	C\$892	C\$105	NA	8.3x
Old 2011E	(0.05)	(0.12)	0.08	0.15	(0.06)	1,034	75		
New 2011E	(0.05)	(0.16)	0.07	0.14	(0.14)	1,001	71	NA	12.3x
Old 2012E	NA	NA	NA	NA	1.32	1,134	178		
New 2012E	NA	NA	NA	NA	1.30	1,133	177	9.4x	4.9x

	OSB (US\$/msf)	Plywood (C\$/msf)
2010A	US\$219	299
Old 2011E	190	330
New 2011E	190	265
Old 2012E	230	315
New 2012E	230	315

Source: Raymond James Ltd., Thomson One

Sino-Forest Corporation TRE-TSX

Rating: Under Review

Current Price(Jul-15-11)	C\$4.08	Target Price (6-12 months)	UR
52-Week Range	C\$25.85 - C\$1.29	Total Return to Target (%)	NM
Market Capitalization (mln)	C\$1,173	Dividend/Yield	nm/nm
Shares Outstanding (mln, f.d.)	287.4	Current Net Debt (mln)	C\$0
Average Daily Volume (000s)	9,036	Enterprise Value (mln)	C\$1,143

EPS	1Q	2Q	3Q	4Q	Full	Revenues	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$0.18	C\$0.26	C\$0.47	C\$0.65	C\$1.60	C\$1,924	C\$1,328	2.6x	0.9x
Old 2011E	0.22	0.31	0.70	0.78	2.00	2,215	1,506		
New 2011E	0.22A	0.31	0.70	0.78	2.00	2,215	1,506	2.0x	0.8x
Old 2012E	NA	NA	NA	NA	2.43	2,442	1,722		
New 2012E	NA	NA	NA	NA	2.43	2,442	1,722	1.7x	0.7x

	Hectares Under Management	Net Debt (%)
2010A	789	NA
Old 2011E	1,250	46%
New 2011E	1,250	0%
Old 2012E	1,500	NA
New 2012E	1,500	NA

Source: Raymond James Ltd., Thomson One

Building Materials

West Fraser Timber WFT-TSX

Rating Old: Market Perform

Rating New: Outperform

Current Price(Jul-15-11)	C\$45.51	Target Price (6-12 mos)	Old: C\$54.00 New: C\$65.00
52-Week Range	C\$62.86 - C\$34.16	Total Return to Target	44%
Market Capitalization (mln)	C\$1,949	Dividend/Yield	C\$0.56/1.2%
Shares Outstanding (mln, f.d.)	42.8	Current Net Debt (mln)	C\$216
Average Daily Volume (000s)	66	Enterprise Value (mln)	C\$1,954

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$0.79	C\$1.44	C\$1.04	C\$0.89	C\$4.16	C\$2,928	C\$428	10.9x	4.6x
Old 2011E	0.46A	0.75	0.96	0.90	3.07	2,904	389		
New 2011E	0.46A	0.62	0.96	0.90	2.95	2,801	378	15.4x	5.2x
Old 2012E	NA	NA	NA	NA	5.14	3,089	557		
New 2012E	NA	NA	NA	NA	5.14	3,089	557	8.8x	3.5x

	Lumber (US\$/mfbm)	Pulp (US\$/mt)
2010A	US\$255	US\$960
Old 2011E	265	1,000
New 2011E	265	1,000
Old 2012E	290	925
New 2012E	290	925

Source: Raymond James Ltd., Thomson One

Canfor Pulp Products Inc. CFX-TSX

Rating: Outperform

Current Price(Jul-15-11)	C\$17.79	Target Price (6-12 mos)	C\$21.00
52-Week Range	C\$19.52 - C\$12.18	Total Return to Target	27%
Market Capitalization (mln)	C\$1,226	Dividend/Yield	C\$1.60/8.9%
Shares Outstanding (mln, f.d.)	71.3	Current Net Debt (mln)	C\$56
Average Daily Volume (000s)	91	Enterprise Value (mln)	C\$1,075

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$0.57	C\$0.88	C\$0.78	C\$0.68	C\$2.91	C\$1,001	C\$230	6.1x	4.7x
Old 2011E	0.71A	0.69	0.53	0.60	2.53	919	250		
New 2011E	0.71A	0.66	0.49	0.57	2.44	921	243	7.3x	4.4x
Old 2012E	NA	NA	NA	NA	1.81	956	220		
New 2012E	NA	NA	NA	NA	1.81	956	220	9.8x	4.9x

	Pulp (US\$/mt)
2010A	C\$960
Old 2011E	1,000
New 2011E	1,000
Old 2012E	925
New 2012E	925

Source: Raymond James Ltd., Thomson One

Pulp & Paper

Domtar UFS-NYSE

Rating: Strong Buy

Current Price(Jul-15-11)	US\$93.41	Target Price (6-12 m)	US\$125.00
52-Week Range	US\$105.82 - US\$46.43	Total Return to Target	34%
Market Capitalization (mln)	US\$3,961	Dividend/Yield	US\$1.00/1.0%
Shares Outstanding (mln, f.d.)	42.4	Current Net Debt (mln)	US\$248
Average Daily Volume (000s)	739	Enterprise Value (mln)	US\$3,466

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	US\$1.59	US\$2.67	US\$4.26	US\$2.41	US\$10.93	US\$5,866	US\$1,087	8.5x	3.2x
Old 2011E	3.25A	3.14	2.50	2.48	11.37	5,686	1,181		
New 2011E	3.25A	2.90	2.50	2.48	11.78	5,592	1,189	7.9x	2.9x
Old 2012E	NA	NA	NA	NA	9.58	5,400	994		
New 2012E	NA	NA	NA	NA	9.58	5,400	994	9.7x	3.5x

	Pulp (US\$/mt)	UFS (US\$/st)
2010A	US\$960	US\$916
Old 2011E	1,000	960
New 2011E	1,000	955
Old 2012E	925	920
New 2012E	925	920

Source: Raymond James Ltd., Thomson One

Fibretek Inc. FBK-TSX

Rating: Market Perform

Current Price(Jul-15-11)	C\$1.25	Target Price (6-12 mos)	C\$1.60
52-Week Range	C\$1.70 - C\$0.88	Total Return to Target	28%
Market Capitalization (mln)	C\$163	Dividend/Yield	C\$0.00/0.0%
Units Outstanding (mln, f.d.)	130.1	Current Net Debt (mln)	C\$113
Average Daily Volume (000s)	75	Enterprise Value (mln)	C\$244

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$(0.01)	C\$0.11	C\$0.09	C\$(0.05)	C\$0.14	C\$557	C\$62	8.8x	4.0x
Old 2011E	0.03A	0.02	0.00	(0.01)	0.02	549	56		
New 2011E	0.03A	0.04	0.05	0.06	0.16	569	76	NA	3.2x
Old 2012E	NA	NA	NA	NA	0.08	518	62		
New 2012E	NA	NA	NA	NA	0.08	518	62	15.4x	3.9x

	Pulp (US\$/mt)
2010A	US\$960
Old 2011E	1,000
New 2011E	1,000
Old 2012E	925
New 2012E	925

Source: Raymond James Ltd., Thomson One

Pulp & Paper

Fortress Paper FTP-TSX

Rating: Strong Buy

Current Price(Jul-15-11)	C\$36.74	Target Price (6-12 mos)	C\$60.00
52-Week Range	C\$63.15 - C\$22.57	Total Return to Target	63%
Market Capitalization (mln)	C\$525	Dividend/Yield	C\$0.00/0.0%
Shares Outstanding (mln, f.d.)	15.0	Current Net Debt (mln)	C\$0
Average Daily Volume (000s)	56	Enterprise Value (mln)	C\$584

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$0.30	C\$0.37	C\$0.29	C\$(0.06)	C\$0.90	C\$281	C\$26	NA	NA
Old 2011E	(0.42)A	0.24	1.16	2.38	3.36	346	80		
New 2011E	(0.42)	(0.08)	0.42	1.99	1.91	324	55	19.2x	10.7x
Old 2012E	NA	NA	NA	NA	10.35	520	225		
New 2012E	NA	NA	NA	NA	8.64	476	191	4.3x	3.1x

Source: Raymond James Ltd., Thomson One

Mercer International Inc. MERC-NASDAQ

Rating: Outperform

Current Price(Jul-15-11)	US\$10.68	Target Price (6-12 mos)	US\$17.00
52-Week Range	US\$15.27 - US\$3.95	Total Return to Target	59%
Market Capitalization (mln)	US\$608	Dividend/Yield	US\$0.00/0.0%
Shares Outstanding (mln, f.d.)	57.0	Current Net Debt (mln)	US\$870
Average Daily Volume (000s)	411	Enterprise Value (mln)	US\$1,278

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	€(0.21)	€0.23	€0.82	€0.63	€1.47	€901	€224	5.1x	4.0x
Old 2011E	0.52A	0.39	0.40	0.39	1.70	903	228		
New 2011E	0.52A	0.38	0.48	0.42	1.80	891	215	4.2x	4.2x
Old 2012E	NA	NA	NA	NA	1.59	897	254		
New 2012E	NA	NA	NA	NA	1.59	897	254	4.7x	3.5x

	Pulp (US\$/mt)	Pulp (Eur.Del) US\$/mt
2010A	US\$960	939
Old 2011E	1,000	995
New 2011E	1,000	995
Old 2012E	925	915
New 2012E	925	915

Source: Raymond James Ltd., Thomson One

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